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PEPSI-COLA COMPANY

Annual Report

1945

Annual Report

1945

Pepsi-Cola Company

March 27, 1946

To the Stockholders:

The year 1945 was the most difficult of all the war years for your Company due to the further reductions in sugar rationing to industrial users. Although sales were thus limited by these reduced sugar quotas, the entire organization and its Bottlers continued to maintain their position in the industry, not only by adhering rigidly to the high quality standard of Pepsi-Cola, but by serving the public through every means at their command.

FINANCIAL REVIEW

There is presented herewith a review of the operations of your Company and subsidiaries for the year 1945, together with a Consolidated Balance Sheet at December 31, 1945, and a summary of Consolidated Income and Earned Surplus for the year then ended, certified by Haskins & Sells, independent certified public accountants.

NET INCOME AFTER ALL TAXES

After providing for taxes including income and excess profits taxes in the United States and foreign countries and figuring on the basis of the excess profits tax base heretofore deemed applicable in the United States, the net income of the Company for the year 1945 was \$5,152,309, or approximately \$.90 per share on the present outstanding capital stock. This compares with \$5,933,456, or approximately \$1.03 per share in the year 1944. The figures now include the profits of the British subsidiary, which were \$13,400 in 1945 and \$62,000 in 1944.



WALTER S. MACK, JR.
President

As you were advised in previous annual reports, the Company has made application for a constructive average base period net income for excess profits tax purposes under the provision of Section 722 of the Internal Revenue Code, the so-called special relief section adopted in the Revenue Act, and is in the process of prosecuting same. It is impossible at this time to appraise the probable results of this application. Accordingly, for the purpose of this report, the excess profits tax base for the year 1945 has been computed in accordance with the Revenue Act in effect during that year without regard to Section 722.

OPERATING NET PROFIT

The consolidated net profit after all charges and expenses, but before deductions of reserves for United States and Foreign income and excess profits taxes for the year 1945, was approximately \$10,845,931, as compared with \$13,122,492 for the year 1944. This reduction was due principally to reduced sugar quotas which limited sales and production.

Below will be found a continuation of the table of comparisons which we have published in the past several annual reports of the operating net profit of the old Pepsi-Cola Company and its subsidiaries for the year 1936 through 1940, and for the present Pepsi-Cola Company since that time. The table below is based on net profits after deducting all charges and expenses, but before the deduction of reserves for United States and Foreign income and excess profits taxes:

1936	\$ 2,083,597.57
1937	3,224,625.72
1938	4,027,513.92
1939	5,952,602.39
1940	8,520,582.31
1941	14,949,335.65
1942	14,863,011.76
1943	12,712,939.02
1944	13,122,492.84
1945	10,845,931.54

OPERATIONS DURING 1945

As already stated, the year 1945 was the most difficult of the war years for your Company, due to the fact that industrial sugar quotas were finally reduced to an all-time low of 50% of the amount used in the base year of 1941. It is readily understandable, therefore, why the volume of business for the year was reduced, as shown by the above figures.

The indicated world supply of sugar appears somewhat better for the year 1946 and it is hoped that industrial sugar quotas will show increasing improvement as the year progresses.



BRYAN HOUSTON
Executive Vice-President



WILLIAM B. FORSYTHE
Vice-President

CUBAN SUGAR COMPANY:

The Cuban sugar crop for the year 1945 was considerably less than that of the previous year due to a serious drought which occurred throughout the Island of Cuba. As a result, the production of sugar by your Company's wholly-owned subsidiary, Compania Ingenios Azucareros Matanzas, S. A., was 47,215 tons, as compared to 78,524 tons in 1944. Part of the reduction in the earnings of your Company from the previous year is a result of the smaller crop and consequently lower income from the Cuban properties. The 1946 crop of the Cuban property has improved considerably over that of 1945 and it is expected that the income from that subsidiary will also improve. Although under the present rationing system and sugar regulations, the Cuban property is compelled to sell its output to the Cuban Government, it is hoped that it will act as a reasonable hedge for your Company against any increase in the price of sugar, and that in the years to come when sugar is no longer rationed, it may be able to supply sugar directly to the Pepsi-Cola Company and some of its Bottlers on the eastern seaboard.

PLANS FOR 1946

For a number of years your Company has been working on its post-war plans, and it is expected that during the year 1946 a number of them will be put into operation. They are as follows:

FRANCHISE BOTTLERS' NEW PLANTS OR ENLARGEMENTS:

Well over 50% of our Bottlers need increased production facilities and have laid plans for either a new plant or enlargement of their present facilities. Many of these Bottlers have actually purchased the necessary land and have availed themselves of the services of our Architectural Department, so that they now have plans and specifications ready for actual construction just as soon as contracts can be placed.

Some of this construction has already been started and more of it will get under way during 1946. However, such a program is going to take longer than a year and it may well be that some plants will not be completed until 1947.

MACHINERY AND EQUIPMENT:

Nearly all Pepsi-Cola franchised plants need additional machinery as well as increased manufacturing facilities. The machinery manufacturers who supply this equipment believe that it will take them at least two years to take care of the orders now on their books. Part of this machinery and equipment will be delivered in 1946 and should help considerably, both from the standpoint of increased capacity and efficiency of operations.



TALBOT O. FREEMAN
Vice-President



GEORGE M. O'NEIL
Vice-President

TRUCKS:

As previously advised, your Company has completed special arrangements with the General Motors Company for group purchasing by its franchised Bottlers of some of their truck requirements. It is hoped that with the cessation of the recent strike of the employees of that Company, new equipment will start to be delivered in the middle of 1946, and that it will continue at a good rate thereafter.

COLOR APPLIED LABEL BOTTLES:

The Pepsi-Cola organization has adopted a new color applied label bottle which will eliminate the necessity of attaching a paper label to the bottle as heretofore. Arrangements have been completed for the manufacture of these special bottles for the Pepsi-Cola Bottlers, and delivery will commence in June of this year. It is expected that the Bottlers will require approximately two years to convert their operations over completely to the color applied label bottles.

This new bottle is a considerable improvement over the paper label bottle, both from the standpoints of consumer acceptance and practicability in coolers, as well as in the efficiency of handling in Bottlers' manufacturing operations.

MANPOWER:

With the cessation of hostilities the manpower situation has improved rapidly, and there should be no problem from now on in getting the personnel required to efficiently man, operate and supervise the production and sales of Pepsi-Cola and its franchised Bottlers.

A new office has been created in your Company — that of Executive Vice-President and General Sales Manager. Mr. Bryan Houston, recently returned from the War Department as assistant to the Director of the Bureau of Public Relations, has been elected to fill that position. Mr. Houston was formerly a vice president of Young & Rubicam where he specialized in sales for a number of important companies. He will spend a large part of his time on a program to help the franchised Bottlers and their selling organization for the period ahead when restrictions on sugar and supplies are removed, and Pepsi-Cola can again aggressively merchandise and sell its products.

COOLERS AND VENDING MACHINES:

A cooler and vending machine campaign was inaugurated in 1945 with excellent sales results. It is expected that a good quantity of these will be produced and delivered during 1946. These coolers and vending machines are good practical point-of-purchase display material.



J. WILLARD PIPES
Vice-President



RICHARD J. RITCHIE
Vice-President

SUGAR:

There is every indication that the sugar supply will improve during 1946, and it is hoped that the low point in rationing has been reached. The low point, which was 50% of the amount used in 1941, was in effect the latter part of 1945 and the first quarter of 1946. The quota for the second quarter of 1946 has already been announced at 60%, and it is hoped that the supply will continue to improve for the balance of 1946 and in 1947, and that at some time in 1947 it may be possible to remove rationing restrictions.

FOREIGN MARKETS:

The Export Department already have negotiated over 180 franchise agreements for bottling franchises in foreign markets, some of which are going into operation as soon in 1946 as machinery and equipment is delivered.

A plant has already been shipped to the Philippine Islands, another to Guam, and two have been requisitioned by the government to be installed in Japan for the Army of Occupation.

From the middle of 1946 on, when the delivery of machinery to foreign franchises is commenced, it is hoped that the Export Department will show a material increase in sales. The number of applications for foreign franchises has been extremely large and considerable care is being taken in surveying the territories and awarding franchises to the proper local management and capital.

COMPANY-OWNED BOTTLING PLANTS:

During the year 1945 production in company-owned plants was at the lowest level of the war period, due entirely to sugar restrictions. However, the plants have been kept in good repair and considerable improvement made in them. A program for further improvement and expansion of these plants and their facilities has been planned, and is to be started as soon in 1946 as new machinery and equipment are again available.

EVERVESS SPARKLING WATER

Your Company has recently started the manufacture of a new product known as Evervess Sparkling Water. A reproduction of the crown used on this product may be seen on the back cover of this report. This sparkling water is put out in the large twelve-ounce bottle for five cents. Not only is it an excellent water with "positive alkalinity", but it is manufactured by a process of spraying water through a specially constructed tank under high powered ultra violet ray lamps for the purpose of making a better water and providing additional purity.



MILWARD W. MARTIN
Secretary



JOSEPH A. MURPHY
Treasurer

At the present time your Company is in the process of franchising those Pepsi-Cola Bottlers who want to manufacture Evervess, provided they will install the special equipment necessary for the production of this fine water. Plants in New York, Philadelphia, Boston, and Washington, D. C. are already in production and others will start within the next few months. Under a gradual expansion program, it is expected that ultimately there will be a large number of franchised plants producing Evervess from the special concentrate shipped to them by your Company. This concentrate has been developed in our laboratories after two years of careful study and research.

It is our opinion that this is not only an improved water, but the five-cent price for a twelve-ounce bottle is considerably below competition. Although sparkling water will not have as large a sale as Pepsi-Cola, it is hoped that considerable volume will be developed for it not only as a mixer, but as a fine table water where purity and sparkle are desired.

* * * * *

SERVICEMEN'S CENTERS:

During the year 1945 your Company continued to operate three large centers for the enlisted personnel of the armed forces. It is estimated that over 7,000,000 men and women used the facilities of these three centers during the year. These centers were located as follows:

Broadway & 47th Street, New York City
13th and "G" Streets, Washington, D. C.
Mason and Market Streets, San Francisco, Calif.

As you were advised in last year's report, these centers provided the enlisted men and women with free checking, free bathing and shaving facilities, information, recreation rooms, and writing facilities. The enlisted personnel made the Pepsi-Cola Centers their headquarters while in the above cities, and your Company has received a great many letters of appreciation, not only from them but from their families, for having provided these accommodations.

Due to the rapid demobilization of the men and women in the armed forces and the closing of camps, the servicemen's center in Washington was closed as of January 1, 1946, the San Francisco center closed as of March 1, 1946, and it is planned that the New York City center will be converted to peacetime use sometime in the middle of 1946, when the servicemen and women in the city will have been substantially reduced in number and its facilities are no longer required.



THOMAS E. O'CALLAGHAN
Asst. Secretary



THOMAS ELMEZZI
Asst. Vice-President

JUNIOR CLUBS:

The Pepsi-Cola Company has provided four junior clubs in New York City for the benefit of the teen-age boys and girls who live in the heavily populated areas. These clubs are an example of self-government by the teen-agers themselves under the supervision of paid directors. Your Company has received considerable acclaim for its farsightedness in helping the teen-agers during the difficult war period and during the necessary readjustment in the post-war period.

Since the youth of the country will be the backbone of coming generations, the Pepsi-Cola Company feels very strongly that industry should do everything possible to help them at this time.

A plan is now being worked out to extend these junior clubs to the territories of franchised bottlers where the need for them is found.

PEPSI-COLA CALENDAR CONTEST:

In 1945 your Company held its second annual art competition known as "Portrait of America", which was open to all American artists, and appropriate prizes were awarded. The contest was held with the understanding that twelve of the twenty winning canvases would be reproduced in full color on the annual Pepsi-Cola calendar. Approximately 4,000 canvases were submitted and from these an independent jury of museum directors, art critics, and prominent artists chose 150 paintings they considered best. These were first placed on exhibition in Rockefeller Center, New York City, and are now on tour and will be exhibited in some of the important museums throughout the country. Copies of the calendar have been sent to all stockholders.

It is expected that considerable improvement will be made in the year 1946 in both the competition and the resulting calendar due to the fact that the Company now has its own Art Director and has strengthened some of the rules of the competition. Mr. Roland McKinney, formerly director of the Los Angeles County Museum, the Baltimore Museum of Art, and the High Museum of Art in Atlanta, has recently been made director of the Pepsi-Cola art competition, and its title has been changed to "Paintings of the Year". It is hoped and expected that the 1946 competition will prove to be the outstanding art event of the year.



WALTER M. FURLOW
Asst. Vice-President



WILLIAM GEISLER
Asst. Vice-President

PEPSI-COLA SCHOLARSHIP PROGRAM :

As the stockholders were advised in the previous annual report, a scholarship plan, open to all high school seniors throughout the country, was inaugurated and a national committee established which is known as the National Administrative Board for Pepsi-Cola Scholarships. This committee is composed of prominent executives in the educational field who direct this important work. They are as follows:

Professor Floyd W. Reeves, Chairman
University of Chicago

Mr. Herman L. Donovan,
President, University of Kentucky

Mr. Milton S. Eisenhower,
President, Kansas State College

Dr. Alvin C. Eurich,
Vice President, Stanford University

Mr. Paul Elicker, Executive Secretary,
National Association of Secondary School Principals

Mr. Henry T. Heald,
President, Illinois Institute of Technology

Professor Marjorie H. Nicolson,
Columbia University, and President, Phi Beta Kappa

Mr. Mordecai Johnson,
President, Howard University

Mr. Paul A. Rehmus,
Superintendent of Schools, Lakewood, Ohio

Mr. Walter S. Mack, Jr.,
President, Pepsi-Cola Company

Professor John M. Stalnaker,
Dean of Students, Stanford University

The results of the 1945 contest were most satisfactory and the winning scholars (two from each state and three from states having a separate Negro educational system) are now hard at work in the universities of their choice.

The scholarship examinations for 1946 have just been completed and, as in the previous year, were held under the supervision of the College Entrance Examination Board — the well-recognized examining board officially accepted by colleges in the United States. Students from approximately 7,000 high schools entered the competition.

Your Company has received congratulations and much praise from educators, and from the high school students and their parents, not only for the scholarships, but for the interest the plan has created among students in going to college who heretofore have never considered higher education.



ALFRED B. HOPPE
Asst. Vice-President



EDWARD A. LEROY
Asst. Vice-President



FREDERICK C. SEBULSKE
Asst. Vice-President



WALTER W. MASTERS
Asst. Treasurer

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It is with deep regret that your Board of Directors reports the death of one of its members, Mr. Herman Shulman. Mr. Shulman had been a director of the Company since the inauguration of the new management in 1938 as well as one of its principal lawyers. Mr. David Podell, a prominent lawyer and substantial stockholder, was elected to fill the unexpired term caused by Mr. Shulman's death.

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Your Company looks forward eagerly to the time when all restrictions and regulations on supplies and equipment are removed, and the management can again aggressively merchandise and sell its products to the public who have grown to appreciate its high standard of quality and great intrinsic value.

Respectfully submitted,

WALTER S. MACK, JR.
President

PEPSI-COLA COMPANY

(Incorporated in Delaware)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1945

ASSETS

CURRENT ASSETS:

Cash on hand and demand deposits.....		\$ 5,331,609.23
Notes and accounts receivable:		
Notes receivable	\$ 66,957.70	
Accounts receivable:		
Customers	640,803.60	
U. S. Government (tax refund).....	528,821.82	
Other	507,889.80	
Total	\$1,744,472.92	
Less reserve for doubtful receivables.....	112,725.59	1,631,747.33
United States and Canadian Government obligations (including amounts receivable in connection with post-war refund of United States excess profits tax)		1,922,391.12
Inventories (see Note 1):		
Finished and in-process.....	\$ 922,158.19	
Raw materials and supplies.....	3,758,122.95	4,680,281.14
Total current assets.....		\$13,566,028.82

MISCELLANEOUS ASSETS:

Special deposits on future equipment purchases.....	\$ 273,169.11	
Notes and accounts receivable — not current.....	580,088.55	
Real estate mortgage receivable.....	382,000.00	
Machinery held for resale.....	145,677.35	
Post-war refund of Canada excess profits taxes (estimated).....	23,740.44	
Other	96,078.15	
Total miscellaneous assets.....		1,500,753.60

PROPERTY, PLANT, AND EQUIPMENT:

Land, buildings, equipment, leasehold improvements, etc. — at cost (less reserve for depreciation and amortization, \$4,364,847.76).....	\$8,087,416.48	
Bottles and cases on hand and with trade (at estimated depreciated values)	2,146,717.86	
Total property, plant, and equipment (net).....		10,234,134.34

DEFERRED DEBIT ITEMS:

Prepaid insurance, taxes, etc.....	\$ 628,227.74	
Advertising materials and expenses.....	189,879.59	
Expenses applicable to 1946 sugar crop in Cuba.....	388,801.06	
Other	133,275.28	
Total deferred debit items.....		1,340,183.67

TRADE-MARKS, FORMULAS AND GOODWILL (at nominal value)..... 1.00

Total \$26,641,101.43

PEPSI-COLA COMPANY

(Incorporated in Delaware)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1945

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued.....	\$2,441,988.84	
Accrued taxes — estimated (see Note 3):		
United States and foreign income and excess profits taxes	\$6,063,668.64	
Less United States Treasury tax notes.....	4,650,000.00	1,413,668.64
Other taxes		984,817.19
Portion of payments chargeable to general reserve estimated to be payable within one year (see below).....		95,000.00
Settlement and service contract payable.....		26,500.00
Total current liabilities (exclusive of customers' deposits on bottles, cases, and other containers as stated in next item below).....		\$ 4,961,974.67

CUSTOMERS' DEPOSITS ON BOTTLES, CASES, AND OTHER CONTAINERS.....	911,685.13
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DEFERRED LIABILITIES:

Settlement and service contract payable, less portion payable within one year shown as a current liability.....	\$ 79,500.00
Liens (Censos) on certain properties in Cuba.....	134,129.21
Total deferred liabilities.....	213,629.21

RESERVES:

General reserve (for contingent liabilities existing at July 31, 1939, for rentals on leases in excess of fair rental values as of that date, and for losses on settlement of such leases) — less \$95,000.00 estimated to be payable within one year shown as a current liability — (see Note 4).....	\$ 474,350.71
Reserve for contingent taxes, losses, etc.....	2,012,132.52
Total reserves	2,486,483.23

CAPITAL STOCK AND SURPLUS:

Capital stock — Authorized 7,500,000 shares of 33⅓¢ each; issued and outstanding 5,752,659.57 shares (including 655.80 shares in Treasury — see below) (see Note 7).....	\$ 1,917,553.19
Capital surplus	4,766,701.06
Earned surplus (since August 1, 1939).....	11,393,824.94
Total	\$18,078,079.19
Less treasury stock (655.80 shares, at cost).....	10,750.00
	18,067,329.19

Notes 1 to 7 on the next pages following are an integral part of this balance sheet.

Total	<u>\$26,641,101.43</u>
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PEPSI-COLA COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1945

1. The inventories are stated on the basis of average cost which at December 31, 1945 was not in excess of market. In accordance with the accounting procedures followed by the companies, raw materials and supplies are charged to manufacturing and other expenses on the basis of average purchase cost (and cost of goods sold is computed on the basis of the average manufacturing costs) without recognition in the income account of any market declines since such declines are ordinarily without effect upon the stabilized sales prices of their products. Where any such market declines are of material amount, however, it is the practice to provide a reserve therefor out of surplus for the purpose of conservative treatment in the balance sheet.

2. Foreign subsidiaries:

The current assets and liabilities and the total assets and liabilities of foreign subsidiaries included in the consolidated balance sheet at December 31, 1945, are as follows:

	<i>Current</i>		<i>Total</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
British subsidiary	\$ 428,236	\$ 107,428	\$ 488,599	\$ 139,034
Canadian subsidiary	1,711,982	369,558	2,133,895	370,839
Cuban subsidiaries	1,255,540	592,587	5,409,267	777,434
Mexican subsidiaries	182,535	8,482	272,634	142,544

The assets and liabilities of these subsidiaries are included in the consolidated balance sheet on the following basis: the current assets and liabilities of the British and Canadian subsidiaries have been converted into United States dollars at the official rate of exchange at December 31, 1945, and those of the Cuban and Mexican subsidiaries at the current rate of exchange at December 31, 1945; their other assets and liabilities have been included at amounts which reflect their United States dollar equivalent at the time of acquisition or origin.

The withdrawal of funds of the British and Canadian subsidiaries is subject to presently prevailing foreign exchange restrictions.

As set forth in previous reports, it was the policy during the war to exclude the accounts of the British subsidiary from the consolidated statements. In view of the end of the war in Europe, however, the British subsidiary has been included in the consolidation for the year 1945. Its assets and liabilities included in the consolidated balance sheet are set forth above and the effect on net income and earned surplus is set forth in the accompanying summary of consolidated income and earned surplus.

3. The accrual of United States income and excess-profits taxes has been made on a basis deemed to be conservative for purposes of the financial statements at December 31, 1945, and may or may not prove to be excessive depending upon the ultimate determination of the appropriate excess-profits credits to which the companies are entitled in computing their excess-profits tax. In addition to other undetermined matters, the Company filed an application for an increase in its excess-profits credit under the relief provisions of the 1942 Revenue Act. An agent of the Treasury Department has recommended rejection of the application but the Company is protesting this recommendation. However, since it is

impossible to predict whether the Company will ever obtain any relief in this respect, no consideration has been given thereto in computing the tax liability for the current or prior years.

The Federal income tax returns of the companies have been examined by the Treasury Department and settlements made through the year 1940. The final return of the old Pepsi-Cola Company has been examined for 1941, and a proposed additional assessment, which was paid during 1945 and charged to the reserve for contingent taxes, losses, etc., is being contested in the courts. The returns of the Company and domestic subsidiaries for 1941, 1942 and 1943 are presently under examination by the Treasury Department.

4. In 1939 a general reserve in the amount of \$3,000,000.00 was provided for known and unknown contingent liabilities existing at July 31, 1939, for rentals on leases of former Loft stores in excess of the approximate fair rental values as of that date of the premises covered by such leases, and for losses on settlement of such leases. As of July 31, 1940, based upon a review of the then known contingent liabilities and leasehold commitments, the Board of Directors increased the general reserve by a transfer thereto of \$1,489,831.90 from capital surplus. Charges to the reserve from August 1, 1939 to December 31, 1945 amounted to \$3,920,481.19, as shown below:

August 1, 1939 to December 31, 1944.....	\$3,777,128.22
Year 1945	143,352.97
Total.....	<u><u>\$3,920,481.19</u></u>

It is estimated that approximately \$95,000 of the balance of \$569,350.71 remaining in the reserve at December 31, 1945 may be applied within one year from that date, and therefore has been classified in the balance sheet as a current liability.

5. In addition to the contingent liabilities mentioned above, the Company has guaranteed the payment of certain obligations of one of its suppliers up to \$1,120,000. The supplier's obligations so guaranteed aggregated \$462,679.52 at December 31, 1945.
6. The Company, as custodian, maintains a special bank account (not reflected in the above balance sheet) for amounts received from Bottlers for payment to a supplier upon shipment of certain equipment ordered by Bottlers' customers. At December 31, 1945, the balance on deposit in this account was \$535,918.58.
7. Pursuant to a resolution adopted at the annual meeting of stockholders held on April 26, 1944, the Company granted to Walter S. Mack, Jr., President of the Company, an option to purchase up to 45,000 shares of the authorized and unissued capital stock of the Company of the par value of $33\frac{1}{3}$ cents each at $\$16\frac{7}{8}$ per share. The option is subject to the provisions of an agreement dated July 12, 1944 and is exercisable as follows: All or any part of 6,000 shares at any time between April 26, 1946 and December 31, 1948; all or any part of an additional 9,000 shares at any time between April 26, 1947 and December 31, 1948; all or any part of an additional 15,000 shares at any time between April 26, 1948 and December 31, 1948; all or any part of an additional 15,000 shares at any time for a period of 30 days after April 26, 1949.

PEPSI-COLA COMPANY AND SUBSIDIARIES
SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1945

GROSS PROFIT ON SALES.....	\$24,987,890.77
ADVERTISING, SELLING, SHIPPING, GENERAL AND ADMINISTRATIVE EXPENSES.....	14,130,366.86
PROFIT FROM OPERATIONS.....	\$10,857,523.91
OTHER INCOME	341,140.55
GROSS INCOME	\$11,198,664.46
INCOME CHARGES	352,732.92
NET INCOME BEFORE DEDUCTING PROVISIONS FOR INCOME TAXES.....	\$10,845,931.54
PROVISIONS FOR INCOME TAXES — Estimated (see balance sheet Note 3) :	
United States normal income and surtaxes.....	\$2,554,600.00
United States excess profits taxes.....	2,495,000.00
Provision for contingent taxes.....	200,000.00
Foreign taxes	444,021.69
	5,693,621.69
NET INCOME	\$ 5,152,309.85
EARNED SURPLUS, JANUARY 1, 1945.....	10,779,697.77
SURPLUS CREDIT — Net income of the British subsidiary for prior years not previously recorded in consolidated earned surplus.....	262,932.33
Total	\$16,194,939.95
DIVIDENDS PAID — 83½ cents a share (paid as follows: March 15, 17½ cents; June 16, 17½ cents; September 15, 17½ cents; December 15, 31 cents).....	4,801,115.01
EARNED SURPLUS, DECEMBER 31, 1945.....	\$11,393,824.94

NOTES:

1. The net income of subsidiaries in Canada, England, Cuba, and Mexico amounting to \$836,477.76 is included in the above consolidated net income. The income and expenses of the Canadian and British subsidiaries have been converted into United States dollars at the official rate of exchange and those of the Cuban and Mexican subsidiaries at the approximate average rate of exchange prevailing during the year, except as to the provision for depreciation which has been converted for all of the companies at rates prevailing at time of acquisition of the related assets.

The operations of the British subsidiary were not included in the consolidation during the war years, but have been included in 1945. The net income of this subsidiary for 1945 included in the above consolidated net income amounted to \$13,416.26; the net income during the period it was not included in the consolidation amounted to \$262,932.33 and has been credited to earned surplus as shown above.

2. The provision for depreciation charged to manufacturing and other expense accounts for the year 1945 amounted to \$711,733.14.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

ACCOUNTANTS' CERTIFICATE

PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries as of December 31, 1945 and the related summary of consolidated income and earned surplus for the year ended that date, have reviewed the accounting procedures of the companies (other than the Canadian subsidiary) and have examined the accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control. As to the Canadian subsidiary, we have examined a report of chartered accountants, and the figures included in the accompanying statements with respect to this subsidiary are derived from such report. The total assets of this subsidiary amount to approximately 8% of the consolidated total, and its gross profit on sales and net income for the year are approximately 4% and 7%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and earned surplus, with the footnotes thereon, fairly present the financial condition of the companies at December 31, 1945, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year, except for a change in policy in respect of the consolidation of the British subsidiary (see Note 2 to the consolidated balance sheet) which change, in our opinion, was proper.

HASKINS & SELLS

New York,
March 26, 1946

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THE MARINE MIDLAND TRUST COMPANY OF NEW YORK
New York, N. Y.

THE FIRST NATIONAL BANK OF NEW JERSEY
Jersey City, N. J.

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New York, N. Y.

GENERAL OFFICE

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